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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 000057

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SUBJECT: OIL FOR MILK: CHAVEZ PUSHES PETROCARIBE, BUT  
GENERALLY BEHAVES DURING FIRST VISIT TO HONDURAS

Classified By: Ambassador Charles Ford, reasons 1.4 (b) & (d)

11. (C) In a whirlwind eight-hour visit, Venezuelan President Hugo Chavez spoke at length about Latin American history and unity and Petrocaribe. He forgave USD 30 million in Honduran debt (after having refused to join other creditor countries to do so in 2005), but did not "sign" any Petrocaribe agreements. He indirectly criticized the USG for historical affronts, such as taking over half of Mexico's territory in the U.S.-Mexican war, and made other indirect criticisms, but in general, he behaved himself, even acknowledging the presence of the Charge. Most people were more entertained by the side issues like the incredibly tight security around the city, those who were noticeably absent from the festivities, and how Paty Rodas displaced the first lady at the head table. End summary.

12. (C) Chavez arrived to Honduras on his airbus from Guatemala with a delegation of 100, 60 of which were security personnel. The road into the city, and much of the city itself were shut down to allow for his smooth movements. Despite these courtesies, Chavez arrived almost three hours late to the Casa Presidencial. Many dignitaries, most notably Human Rights Commissioner Dr. Ramon Custodio eventually left because of other engagements, and all present complained of their hunger, as the food was not served until after all the speeches. Of interest was more who was absent than who attended: Vice President Elvin Santos (who had already informed the Charge he would not attend); President of the Congress Roberto Micheletti; Chief Justice Vilma Morales; Anticorruption Commission Director Juan Ferrera; Matias Funes, founder of the leftist Democratic Unification party; and Tegucigalpa mayor Ricardo Alvarez (of the Nationalist party), who publicly reported he had not been invited.

The Speech

13. (SBU) During the speech, Chavez droned on extensively about the history of Latin America, mentioning independence leaders Simon Bolivar and Francisco Morazan dozens of times. He mentioned his government's discord with the United States both directly and indirectly, and took a few swipes at the USG for taking more than half of Mexico's territory during the U.S.-Mexican war. He also took stabs at the United

States and others indirectly, by saying that the "dogs are barking" at Zelaya's heels. He then used one of Fidel Castro's phrases by saying "I hope that this visit does not do you harm." Chavez acknowledged the presence of the Charge and detailed Venezuela's business relationship with the United States, stating that Venezuela owned seven oil refineries and hundreds of gas stations in the United States, and employed thousands of Americans through its ownership of Citgo. (Note: Zelaya's eyes popped out at these statements; on a TV talk show last Sunday he had argued that since the United States was a major purchaser of Venezuelan oil, it should not criticize Honduras for doing the same. End note.)

His only positive remark was that he would be forgiving Honduras' USD 30 million debt, as Honduras's other official creditors did three years ago.

¶4. (C) Most of Chavez' speech revolved around Petrocaribe. He said Venezuela wanted to work with Zelaya and his government to accelerate economic growth, which could be done without offering charity. Chavez said he wanted to cooperate in the freedom of all peoples, and liberate all countries from dependence and "strengthen their energy security." He said many countries do not repay their oil debts to Venezuela with cash, noting Argentina sends air conditioned tractors and Uruguay sends computer experts. Chavez suggested Honduras could repay its debt by sending milk or agricultural products. (Note: We understand that there may be milk scarcities in Venezuela, so we believe this was playing to the Venezuelan audience, not the Honduran. There is little possibility that Honduras would have enough capacity to export even a fraction of the milk necessary to repay a debt of this size. End note.)

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¶5. (C) Although details of the proposed Petrocaribe deal are yet to be defined, based on conversations with various GOH and private-sector sources, our understanding is that it would work basically as follows. The GOH would receive an agreed amount of petroleum products, primarily bunker fuel (heavy fuel oil) for power plants, from Venezuela, paying 60 percent of the prevailing market price in cash (or perhaps milk), with the remainder financed at 1 percent interest for 25 years with a two-year grace period. The GOH would then sell the products at full market value to power plants and gas stations, in effect pocketing 40 percent of the value of the fuel, less transaction costs and administrative expenses.

The logistical details and what to do with the GOH cash windfall are the subject of ongoing internal debate. But the deal would not likely affect what Hondurans pay at the pump or for their electric bills, except that it may permit the GOH to maintain its current unsustainable fuel and electricity subsidies longer than it could otherwise. However, business leaders and Zelaya's own recently ousted Central Bank president are counseling that the deal should be approved only if the resources saved are devoted to productive investments (as opposed to fuel subsidies or current spending), such as building hydroelectric plants to reduce reliance on high-priced fuel oil. Sources tell us there is broad opposition to a Petrocaribe deal in the Honduran Congress.

¶6. (C) During the speech, Chavez acknowledged several in the room, referring to Liberal Party leader Paty Rodas, seated at the front table, as his "friend." Rodas spent the event whispering to her staff and sending people here and there, giving the air that she was indeed in charge. This could only have exacerbated the rift between Zelaya and his wife, who was relegated to sit with the general public.

¶7. (SBU) Following the speech and a strange press conference where three Venezuelan and three Honduran journalists were allowed to ask questions that were never answered, Chavez left the Casa Presidencial for a rally with the "masses." He then left the country before nightfall.

Comment

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18. (C) In all, the visit was short and lacked substance. The only deliverable was that Venezuela finally forgave the Honduran debt, years after the rest of the creditor nations made this decision. Zelaya will invariably come away from this visit re-energized on the topic of Petrocaribe, and we think he will use the facts and figures presented by Chavez regarding the U.S. business relationship with Venezuela to justify a Petrocaribe deal. (Note: We are already explaining to contacts and the press that our oil relationship with Venezuela is strictly a commercial one, not a government-government arrangement, and that we rely on Venezuela for only 7 percent of our oil supply. End Note). Zelaya is exerting great pressure on the business sector, offering that they be involved in "investing" any proceeds from a deal, so we are seeing their initial opposition whittle away. We still believe there is enough dissent in congress to keep any deal signed from being implemented if the private sector can put forward a viable alternative to Petrocaribe, such as an IMF loan based on World Bank reforms to the energy sector. Such an alternative could allow for direct budget support from donor nations. End comment.  
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